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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. Economic and Real Estate Outlook

Aggregate Economy

While the economy continues to expand at a rapid pace, a trend toward slower growth due to high and rising interest rates is now evident. The U.S. Department of Commerce estimates that during the second quarter of this year real or inflation-adjusted Gross National Product (GNP) increased at an annualized rate of 5.7 percent, down from the revised 9.7 percent of the first quarter. Since it is based primarily on the level of economic activity in April, this "flash" estimate of second quarter GNP growth is likely to be revised downward to the 4 to 5 percent range. Growth of economic activity in May, as measured by indicators such as retail sales, industrial production, housing starts, and indexes of leading and coincident indicators, was lower than April. Preliminary indicators suggest that the slowing of growth of economic activity continued through June. Despite this slowing, for all of 1984 real GNP should increase by 6 to 6-1/2 percent, the highest growth rate for the U.S. economy since the mid-1960's.

Interest rates should continue to rise through mid- to late-1985, choking off activity in the interest-sensitive sectors of the economy and causing real GNP growth to continue to slow. The most likely scenario is for the economy to experience a "soft landing" in mid-1985 with real GNP growth rates of less than one percent during the second and third quarters. As economic growth comes to a virtual halt, private credit demands will subside and interest rates should fall. This will then set the stage for some improvement in economic activity in 1986. However, there is a risk that the economy will experience a "hard landing" in 1985, in which case interest rates would rise high enough to cause the economy to reenter recession (i.e., negative real growth for two consecutive quarters.)

Inflation has temporarily subsided due primarily to declining food prices. During the second quarter of this year the Consumer Price Index (CPI) rose at an annualized rate of 3.9 percent compared to 5.0 percent during the first quarter. Despite this slowdown, there are several indicators that suggest that inflation will gradually accelerate during the second half of 1984 and through 1986. Foremost among these indicators are current trends in wages and productivity. For example, from the first quarter of 1983 to the first quarter of 1984, labor compensation (which represents nearly two-thirds of GNP) rose 4.6 percent. However, this increase in wage costs was offset by a 3.9 percent increase in productivity. The resulting increase in unit labor costs was just 0.7 percent which contributed greatly to the low level of overall inflation over the period. Unfortunately, those favorable wage and productivity trends appear to be ending. As is typical of an economic expansion, the rate of productivity growth is slowing while the rate of increase of labor compensation is starting to increase. Consequently, the rate of increase of unit labor costs during the second half of 1984 should be nearly double the rate of increase during the first half of the year. Unit labor costs are expected to continue to accelerate through 1985 and 1986.

After 18 months of strong economic growth conditions in labor markets have improved dramatically. Since December 1982, when the unemployment rate peaked at 10.8 percent, total civilian employment has increased by nearly 6-1/2 million with the unemployment rate falling to 7.1 percent in June due to an unusually small increase in the labor force combined with the moderate growth in employment. Total civilian employment is expected to increase by another 1 to 1-1/2 million jobs over the next six months with the unemployment rate perhaps falling just under 7 percent by the end of the year. But with labor force growth remaining fairly strong and the recovery running out of steam, the unemployment rate is expected to rise through 1985 and into 1986.

The competition between public and private credit demands continues to intensify, pushing interest rates higher. A proven barometer of these tightening credit conditions is the federal funds rate or the interest rate on reserves held in the Federal Reserve System (FED) that commercial banks lend each other. As shown in Table 1 the federal funds rate has risen 1-1/2 percentage points (150 basis points) since January with half of that increase occurring in June. Other interest rates rose during June with the largest

increases occurring for intermediate maturity securities. For example, in June yields on 1 and 5 year Treasury securities rose 35 and 30 basis points, respectively, while yields on 3-month Treasury bills and 30-year Treasury bonds rose just 3 and 10 basis points, respectively. This pattern of interest rate movements suggests that investors have little confidence that the federal government will resolve the deficit crisis and so anticipate a significant resurgence of inflation over the next few years. The consensus appears to be that this problem will be most acute over the intermediate term. In the meantime, investors are showing a clear preference for very short term instruments.

Table 1

Selected Interest Rates

		Federal Funds	3-Month Treasury Bill	1-Year Treasury Bill	5-Year Treasury Securities	30-Year Treasury Securities
1984:	JAN	9.56	8.90	9.07	11.37	11.75
	FEB	9.59	9.09	9.20	11.54	11.95
	MAR	9.91	9.52	9.67	12.02	12.38
	APR	10.29	9.69	9.95	12.37	12.65
	MAY	10.35	9.83	10.58	13.18	13.33
	JUN	11.09	9.86	10.93	13.48	13.43

A contributory factor to the rise in interest rates has been the decision of the FED to further restrict the growth of money and credit at the end of March. At that time such a policy move was warranted since the economy was growing at an inflationary pace. Since then it appears that the FED has followed a policy of "passive restraint," doing nothing to offset increases in interest rates caused by market forces. With the economy noticeably slowing at current levels of interest rates our best guess is that the FED will vote to continue with its current policy when it meets to consider this issue in mid-July.

The combination of huge Treasury borrowing and strong private credit demands should lead to further increases in interest rates through mid-1985 even with no policy change by the FED. The yield on 3-month Treasury bills is likely to rise to about 11 percent in mid-1985 while the yield on 30-year Treasury securities could reach 14 percent by that time. This forecast takes into account the deficit down payment of roughly $60 billion over three years which the President has said will be signed into law. Even with this legislation the federal deficit is expected to total $220 billion in 1985 and about $225 billion in 1986.

Real Estate Markets

High and rising mortgage rates have dampened activity in housing markets in recent months. In May sales of existing single-family homes declined 1.3 percent to a seasonally-adjusted annual rate of 3.05 million units. Housing starts fell 10.5 percent to a seasonally-adjusted annual rate of 1,782,000 units in May while sales of new single-family homes sold declined 4 percent to a seasonally-adjusted annual rate of 612,000 units. The number of months supply of new single-family homes for sale at the current sales rate rose to 6.7, the highest level since September of 1982. Coincident with this decline in real estate activity, NAR's Housing Affordability Index slipped 0.6 percentage points to 87.2 from a revised level of 87.8 in April, the highest level since December 1979. The May index level means that a family with the national median income had 87.2 percent of the income needed to qualify for a mortgage on a median-priced resale home.

With mortgage rates expected to continue to rise over the next twelve to eighteen months, activity in housing markets is expected to continue to decline. By the end of

1984 resales should be down to a seasonally-adjusted annual rate of 2.6 to 2.7 million units, while housing starts decline to the 1.5 to 1.6 million unit range. For all of 1984 sales of existing single-family homes should total 2.4 to 2.5 million units while housing starts decline to the 1.4 to 1.5 million unit level. In 1986 activity in housing markets should improve as mortgage rates decline. The extension of the mortgage revenue bond program for another four years, which is part of the deficit-reduction tax bill awaiting the President's signature, should keep housing activity from declining more than it otherwise would.

Activity in nonresidential real estate has improved broadly during the first half of 1984. The value of new commercial buildings put in place is expected to increase about 44 percent during 1984 after falling by about 3 percent in 1983. This increase stems solely from increased construction of retail buildings (stores and warehouses) which follows very closely the cycle of residential construction. Construction of new office buildings is expected to decline in 1984 and continue to decline at least through 1986 to correct for an oversupply of office space in some market areas. Construction of industrial or manufacturing buildings is making a fairly strong turnaround in 1984 after a very steep decline during 1983. Overall, the value of new industrial buildings put in place should increase 10 to 12 percent this year and about 25 percent in 1985 as businesses expand and replace obsolete capacity.

The outlook for commercial, industrial, and rental residential construction would be more favorable had Congress not voted to extend the cost recovery period for depreciable real estate from 15 to 18 years. This change in tax law will double the tax burden on a typical commercial structure, resulting in a decline in the value of existing commercial, industrial, and rental residential structures of 5 percent or $135 billion. Further, investment in new structures should be about 5 percent per year less than what would have been the case, resulting in an annual loss of GNP of a little over $7 billion with a decline in total civilian employment of about 180,000.

Table 2

Annual Decline in Investment in Commercial, Industrial, and Rental Residential Structures Resulting from Extension of Cost Recovery Period from 15 to 18 Years

Commercial Structures	
Percent decline	4.2%
Dollar amount (84 $s)	$1.7 billion
Square footage (84 costs)	28 million
Industrial Structures	
Percent decline	4.0%
Dollar amount (84 $s)	$0.3 billion
Square footage (84 costs)	5 million
Rental Residential Structures	
Percent decline	5.9%
Dollar amount (84 $s)	$1.6 billion
Square footage (84 costs)	39 million
Rental units (84 costs)	41,000
Total	
Percent decline	4.8%
Dollar amount (84 $s)	$3.6 billion
Square footage (84 costs)	72 million
Loss of GNP (84 $s)	$7.2 billion
Loss of jobs	180,000

Table 3

U.S. ECONOMIC OUTLOOK

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:1	84:2	84:3	84:4	85:1	85:2	85:3	85:4	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,550	3,625	3,694	3,758	3,823	3,877	3,932	4,003	3,073	3,310	3,657	3,909	4,257
Percent Change	13.9	8.7	7.9	7.1	7.1	5.8	5.8	7.4	4.0	7.7	10.5	6.9	8.9
Percent Change (without inflation)	9.7	5.7	3.0	2.0	1.5	0.6	0.4	1.2	-1.9	3.4	6.5	1.7	2.6
Consumption	6.4	7.1	3.3	2.8	1.7	0.3	0.7	1.2	1.4	4.2	5.6	2.0	1.9
Durables	23.2	15.9	0.1	3.6	0.7	-6.4	-3.7	-1.6	-0.9	11.8	14.7	0.0	1.1
Nondurables	5.1	8.6	3.4	2.1	1.6	1.5	1.3	1.5	0.5	3.3	5.2	2.3	1.9
Services	2.1	3.0	4.4	3.0	2.1	1.8	1.8	2.0	2.9	2.7	3.0	2.5	2.3
Residential Investment	26.7	16.0	-6.4	-11.1	-14.5	-12.1	-5.3	0.7	-15.3	39.4	13.8	-8.7	6.5
Nonresidential Investment	16.2	12.7	8.6	6.8	5.9	4.1	3.0	0.9	-4.7	1.4	15.6	5.8	2.6
Structures	24.4	11.8	7.9	5.9	4.9	1.8	1.2	0.1	1.8	-6.9	11.0	4.5	1.8
Equipment	13.0	13.1	8.9	7.2	6.2	5.0	3.7	1.2	-7.5	5.3	17.5	6.3	2.9
Exports	11.3	2.4	5.3	5.2	6.0	5.6	5.6	5.8	-7.8	-5.8	5.6	5.4	5.7
Imports	47.7	23.2	9.4	7.6	4.2	4.3	3.6	2.8	1.4	7.2	26.5	6.4	3.3
Government Purchases	-1.8	16.7	12.7	3.2	-5.3	3.0	2.5	2.0	1.8	0.5	4.0	2.7	2.7
Consumption (% of GNP)	65.1	65.4	65.4	65.5	65.6	65.5	65.5	65.6	65.3	65.9	65.4	65.5	65.1
Residential Investment (% of GNP)	3.7	3.8	3.7	3.6	3.4	3.3	3.2	3.2	2.5	3.4	3.7	3.3	3.4
Nonresidential Investment (% of GNP)	11.7	11.8	12.0	12.1	12.3	12.4	12.5	12.4	11.2	11.0	11.9	12.4	12.4
Structures (% of GNP)	3.3	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.2	3.4	3.5	3.4
Equipment (% of GNP)	8.3	8.5	8.6	8.7	8.8	8.9	9.0	9.0	7.6	7.7	8.5	8.9	8.9
Inventory Change ($ billions)	71.0	54.4	38.6	34.2	46.0	44.1	36.1	32.7	-24.6	-6.5	49.6	39.7	48.9
Mfg. Capacity Utilization Rate (%)	81	82	83	82	82	82	81	80	71	75	82	81	81
Auto Sales (millions of units)	10.6	10.7	10.5	10.5	10.4	10.1	9.9	9.6	8.0	9.2	10.6	10.0	9.8
Domestic (% of total)	78.0	77.9	74.1	74.4	76.0	75.5	73.2	71.9	72.3	73.8	76.1	74.2	72.5
Imported (% of total)	22.0	22.1	25.9	25.6	24.0	24.5	26.8	28.1	27.9	26.1	23.9	25.8	27.5
Manufacturing Industrial Production (% change)	12.1	9.7	6.5	1.6	2.8	0.0	-1.9	-0.3	-8.5	7.8	11.5	2.1	2.7
Common Market	3.6	3.6	3.4	2.0	1.5	2.1	4.0	1.6	-1.4	0.7	3.7	2.4	2.0
Japan	13.6	5.6	5.1	8.9	7.6	1.9	2.6	5.2	0.4	3.5	9.5	5.5	3.8
Employment(millions)(civilian:household basis)	103.7	105.1	105.9	106.6	107.1	107.4	107.6	107.9	99.5	100.8	105.3	107.5	108.9
Unemployment Rate (%) (civilian)	7.9	7.5	7.3	7.2	7.3	7.5	7.8	8.0	9.7	9.6	7.5	7.6	8.0
Personal Income per Household (average)<1>	37,607	38,163	38,857	39,427	39,943	40,564	41,176	41,901	33,633	35,433	38,514	40,896	44,307
Percent Change -- Year Ago (w/o inflation)	5.1	5.2	5.3	3.7	1.6	1.0	0.6	0.7	-0.8	1.3	4.8	1.0	2.2
Personal Taxes per Household (average)	6,771	6,890	7,007	7,116	7,202	7,327	7,450	7,607	6,426	6,513	6,946	7,396	8,343
Percent Change -- Year Ago (w/o inflation)	1.4	1.0	4.8	3.8	1.8	1.2	1.0	1.3	-2.3	-2.7	2.7	1.3	6.3
Percent of Personal Income	18.8	18.8	18.8	18.8	18.8	18.9	18.9	19.0	19.9	19.2	18.8	18.9	19.7
Disposable Income per Household (average)	30,835	31,274	31,850	32,311	32,741	33,238	33,727	34,294	27,206	28,920	31,568	33,500	35,964
Percent Change--Year Ago (w/o inflation)	6.0	6.1	5.4	3.8	1.6	1.1	0.6	0.6	-0.4	2.3	5.3	1.0	1.3
Household Interest Payments (% of total)	10.3	10.8	10.4	10.4	10.5	10.6	10.9	10.8	9.6	9.8	10.5	10.7	10.5
Net Worth per Household (average)	75,348	76,585	78,305	79,666	80,698	81,706	83,413	85,424	66,453	74,177	77,476	82,810	90,676
Percent Change -- Year Ago (w/o inflation)	1.0	-0.6	0.5	1.7	2.5	1.5	1.2	1.6	-1.8	7.1	0.6	1.7	3.2
Consumer Price Inflation (CPI)	5.0	3.9	5.4	5.5	5.5	5.3	5.5	6.0	6.2	3.2	4.6	5.4	6.2
Gross National Product Inflation (GNP Deflator)	3.8	2.8	4.7	5.0	5.5	5.1	5.4	6.2	6.0	4.2	3.8	5.1	6.1
Personal Consumption Inflation	3.8	2.6	4.9	5.1	5.3	5.2	5.4	5.8	5.8	3.9	3.7	5.1	5.9
Residential Construction Inflation	1.8	3.3	4.3	5.3	6.1	6.7	6.7	7.2	2.8	2.3	2.7	5.8	7.8
Nonresidential Construction Inflation	-2.1	3.5	6.2	6.8	7.8	7.7	8.0	8.3	4.7	-0.7	1.4	7.2	8.7
Producers Price Inflation (WPI)	3.0	2.5	5.1	5.3	4.1	4.6	5.7	6.3	2.0	1.3	3.5	4.8	6.5
Compensation per Manhour (% change)	5.9	3.7	5.9	6.2	7.6	6.6	6.7	7.2	7.9	5.5	4.9	6.6	7.5
Productivity (% change)	3.5	2.2	2.0	1.5	1.1	1.0	0.1	0.6	0.0	3.1	2.9	1.2	1.2
Unit Labor Cost (% change)	2.5	1.4	3.8	4.6	6.4	5.5	6.5	6.5	7.9	2.3	2.0	5.3	6.2
Unit Capital Cost (% change)	5.1	4.8	4.6	4.5	4.4	4.4	4.3	4.3	9.5	6.9	4.7	4.4	4.3
Before Tax Corporate Profits ($ billions)<2>	252	256	257	255	252	247	237	235	190	217	255	243	269
Corporate Tax Liability	93	94	94	93	91	88	82	84	59	77	94	86	100
'Windfall Profits' Tax Receipts	8	8	8	8	8	8	8	8	16	10	8	8	8
After Tax Profits	152	154	155	154	153	151	147	144	115	131	154	149	161
Inventory Valuation Adjustment	-13	-17	-25	-28	-26	-28	-32	-36	-8	-9	-21	-31	-42
Capital Consumption Adjustment	50	55	60	65	72	74	77	80	-1	31	57	76	80
Profits from Current Production (with IVA, CCA)	189	191	190	190	198	198	192	188	106	152	190	194	200
Adjusted for Inflation (84:1 base)	189	190	186	185	190	187	179	173	113	156	187	182	176
Percent Change - Year Ago	51.4	29.9	11.8	0.1	0.4	-1.7	-3.6	-6.3	-8.9	38.0	20.5	-2.8	-3.1
Per Unit of Output (% of GNP)	5.3	5.3	5.1	5.1	5.2	5.1	4.9	4.7	3.4	4.6	5.2	5.0	4.7
Effective Corporate Tax Rate (%)<2>	33	33	34	33	32	31	30	31	37	34	33	31	34
Federal Tax Receipts (Unified basis)	620	784	684	636	650	835	743	689	609	613	681	729	814
Percent of GNP	17.5	21.6	18.5	16.9	17.0	21.5	18.9	17.2	19.8	18.5	18.6	18.7	19.1
Federal Expenditures (Unified basis)	837	862	841	915	931	948	942	984	740	803	864	951	1,040
Percent of GNP	23.6	23.8	22.8	24.4	24.4	24.4	24.0	24.6	24.1	24.3	23.6	24.3	24.4
Surplus or Deficit (Unified basis)	-218	-78	-156	-279	-281	-113	-199	-295	-131	-190	-183	-222	-226
% of GNP	6.1	2.2	4.2	7.4	7.3	2.9	5.1	7.4	4.2	5.8	5.0	5.7	5.3
% of Personal Savings	146.8	58.7	114.3	209.4	213.9	78.8	131.3	184.5	106.1	164.3	132.3	152.1	133.0
% of Net Domestic Savings	68.1	25.4	51.1	92.9	92.9	36.6	64.6	95.5	68.0	78.5	59.4	72.4	68.4

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

Table 4

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:1	84:2	84:3	84:4	85:1	85:2	85:3	85:4	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,943	3,032	2,852	2,654	2,605	2,500	2,403	2,301	1,948	2,719	2,870	2,452	2,752
Percent Change - Year Ago	14.5	9.1	3.0	-3.7	-11.5	-17.5	-15.8	-13.3	-17.2	39.6	5.6	-14.6	12.2
Dollar Volume (billions)	250.2	260.7	248.9	226.4	227.3	222.4	218.0	204.3	156.5	224.5	246.6	218.0	258.2
Existing Home Prices - Median ($1000's)	71.8	73.3	74.9	73.6	75.6	77.3	79.0	77.5	67.7	69.8	73.4	77.4	82.1
Percent Change - Year Ago	5.0	5.0	5.4	5.1	5.2	5.5	5.5	5.4	2.3	3.2	5.1	5.4	6.2
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	650	681	724	730	765	787	795	760	754	633	696	776	785
Percent of Household Income	22	22	23	23	24	24	24	23	28	22	23	24	22
NAR Affordability Index	86.8	86.1	81.2	80.4	77.9	76.7	76.5	80.3	68.3	82.3	83.6	77.9	82.8
New Single-Family Home Sales (thousands)	682	620	600	580	550	530	510	490	417	626	620	520	600
Percent Change - Year Ago	13.9	-4.3	2.2	-13.7	-19.3	-14.5	-14.9	-15.4	-4.3	50.1	-1.0	-16.1	15.4
New Home Prices - Median ($1000's)	77.9	80.5	81.4	82.4	83.7	85.0	86.4	88.0	69.3	75.5	80.5	85.8	92.5
Percent Change - Year Ago	6.3	7.3	4.8	8.6	7.4	5.6	6.2	6.7	0.7	8.9	6.7	6.5	7.9
New Home Prices--Mean ($1000's, Quality Adjusted)	90.7	91.5	92.7	93.4	95.0	96.6	98.4	99.7	87.8	89.7	92.1	97.4	105.0
Percent Change - Year Ago	1.9	3.2	2.2	3.5	4.7	5.6	6.1	6.7	2.8	2.1	2.7	5.8	7.8
New Mortgage Commitments ($ billions)	188.7	176.4	166.4	167.7	166.5	162.2	158.2	159.0	64.8	163.4	174.8	161.5	172.2
Percent Change - Year Ago	31.4	14.6	-13.3	2.2	-11.8	-8.1	-4.9	-5.2	8.1	152.1	7.0	-7.6	6.6
Mortgage Debt Outstanding ($ billions)	1,871	1,937	2,002	2,067	2,134	2,201	2,269	2,339	1,629	1,752	1,969	2,236	2,191
Homeowners' Equity ($ billions)	2,707	2,771	2,811	2,882	2,945	2,992	3,044	3,103	2,396	2,580	2,793	3,021	3,284
Housing Inventory (millions)	92.8	93.2	93.6	94.0	94.4	94.7	95.1	95.4	90.6	91.8	93.4	94.9	96.3
Private Housing Starts (thousands)	1,968	1,867	1,710	1,609	1,538	1,475	1,474	1,509	1,056	1,704	1,788	1,499	1,676
Single-Family	1,278	1,140	1,068	1,014	953	906	911	924	663	1,066	1,125	923	1,026
Percent of Total	65.0	61.1	62.4	63.0	61.9	61.4	61.8	61.2	62.8	62.6	62.9	61.6	61.2
Multi-Family	690	727	642	596	586	569	563	585	394	637	664	576	650
Percent of Total	35.0	38.9	37.6	37.0	38.1	38.6	38.2	38.8	37.2	37.4	37.1	38.4	38.8
Mobile Home Shipments (thousands)	298	293	278	280	284	281	275	281	240	296	287	280	310
Rental Vacancy Rate (%)	5.6	5.5	5.5	5.4	5.4	5.4	5.4	5.4	5.3	5.6	5.5	5.4	5.4
Unsold New Homes (% of sales)	44.3	52.2	57.2	60.5	61.7	60.7	59.4	57.5	65.2	43.0	53.5	59.8	55.3
Office Vacancy Rate (%)<1>	13.1	12.0	11.5	11.1	10.7	10.4	10.1	9.9	8.0	11.7	11.9	10.3	9.5
Industrial Vacancy Rate (%)<1>	4.8	4.6	4.4	4.2	4.0	3.9	3.8	3.8	4.4	4.9	4.5	3.9	3.6
New Commercial Building Construction (% Ch Value)	67.6	151.5	10.3	8.5	6.8	4.1	3.0	4.7	9.0	-2.8	44.0	11.6	9.0
New Industrial Building Construction (% Ch Value)	82.4	0.7	31.5	38.4	33.2	23.2	8.4	7.4	2.5	-24.0	11.0	24.5	11.4
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	7.4	5.8	5.9	6.0	4.3	4.6	6.1	7.7	6.6	11.0	6.9	5.4	6.5
M1 Velocity (% change)	6.1	2.8	1.9	1.0	2.6	1.1	-0.3	-0.3	-2.4	-3.0	3.3	1.4	2.2
M2 (% change)(FED Target 6-9%)	7.1	8.3	7.4	6.9	5.6	5.0	8.7	9.3	9.5	12.6	7.9	6.7	8.4
M2 Velocity (% change)	6.3	0.3	0.5	0.2	1.4	0.7	-2.7	-1.7	-5.0	-4.4	2.4	0.1	0.4
Monetary Base (% change)	8.7	5.9	6.6	6.4	5.3	4.6	5.5	6.1	6.9	9.5	7.6	5.6	6.5
Flow of Funds													
Supply (total)	397	408	412	410	411	421	421	424	209	286	407	419	451
Personal Savings	148	133	137	133	131	144	151	160	125	114	138	147	171
Savings Rate	5.9	5.2	5.3	5.0	4.9	5.3	5.4	5.6	5.8	4.9	5.4	5.3	5.7
Net Business Savings	111	111	107	105	111	108	101	95	37	79	108	104	102
State + Local Govt. Savings	61	63	63	62	60	58	55	54	31	51	62	57	59
Foreign Funds(current account deficit)	78	101	105	110	108	111	113	115	15	42	98	112	120
Demand (total)	437	283	300	423	414	265	368	464	167	325	361	378	397
Consumer Installment Debt(net change)	68	57	46	44	43	38	34	33	19	40	54	37	38
Commercial+Industrial Loans(net change)	23	54	10	19	6	32	52	49	23	-2	26	35	34
Home Mortgage Debt(net change)	129	94	88	82	84	82	83	87	-5	96	98	84	99
Federal Deficit	218	78	156	279	281	113	199	295	131	190	183	222	226
Selected Interest Rates (Percent)													
Mortgage Interest Rates													
30 Year,Fixed-Rate	13.9	14.3	14.9	15.3	15.6	15.7	15.5	15.1	17.2	13.9	14.6	15.5	14.7
Real Mortgage Rate	10.1	11.5	10.2	10.3	10.1	10.6	10.1	8.9	12.8	9.9	10.5	9.9	8.4
1 Year ARM (without buy-down)	11.9	13.1	13.9	14.1	14.3	14.4	14.2	13.7	14.0	11.3	13.3	14.1	12.9
Real Mortgage Rate	8.0	10.3	9.2	9.1	8.8	9.3	8.8	7.5	9.6	7.2	9.2	8.6	6.6
Corporate Bond Rate (AAA)	12.3	13.2	13.8	13.9	14.0	14.1	14.0	13.5	13.8	12.0	13.3	13.9	12.7
Government Bond Rate	12.1	13.2	13.7	13.8	13.9	13.8	13.7	13.2	12.9	11.3	13.2	13.7	12.2
Real Government Bond Rate	8.2	10.3	9.0	8.8	8.4	8.7	8.3	7.0	8.6	7.3	9.1	8.1	5.8
Federal Funds Rate	9.7	10.5	11.4	11.5	11.7	12.0	11.8	11.0	12.3	9.1	10.8	11.6	10.1
3 Month Treasury Bill Rate	9.2	9.7	10.2	10.5	10.8	11.0	10.9	10.5	10.6	8.6	9.9	10.8	9.8
Real 3 Month T-Bill Rate	5.3	6.9	5.5	5.5	5.3	5.9	5.5	4.3	6.2	4.5	5.8	5.3	3.5
1 Year Treasury Bill Rate	10.2	11.4	12.2	12.4	12.6	12.7	12.5	12.0	12.3	9.6	11.6	12.4	11.2
Commercial Paper Rate	9.4	10.5	10.9	11.1	11.5	11.6	11.4	10.8	11.9	8.9	10.5	11.3	10.1
Rate on Money Market Fund Shares	9.6	10.7	11.2	11.3	11.7	11.8	11.6	11.0	12.1	9.0	10.7	11.5	10.2
Prime Rate	11.1	12.3	13.0	13.2	13.5	13.8	13.7	13.2	14.9	10.8	12.4	13.6	12.4

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.